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Title: The Sensitive Points in the Analysis of an Investment Project

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ABSTRACT

In the business world decision making is of a high importance in a world in permanent change, which implies that the enterprises must learn to be part of that change.

This new perspective doesn't only concern enterprises but also any organization as all of them have to invest in order to stay in the market, that is, there is an implementation of the plotted strategy.

The study has been developed with 60 students from the second year (2012/2013) of a degree of Management: Accountancy & Finance (School of Business and Administration – Polytechnic Institute of Setúbal), in the area of Investment Projects and one of the moments of evaluation consists in the construction of a Business Plan.

A management learning process has been developed, which aims at the explanation of certain knowledge that is often implicit in the performance of the different Investment Projects.

The student's conditions of the Management level of knowledge is important and the teacher should assume a pioneer role in his learning process by teaching them to analyse and to act in an autonomous and independent way in order to validate the values and to understand the meaning to support the decision of accepting or not accepting an investment.

Decision makers at many levels of organizations are frequently confronted with important choices concerning financial aspects of the organization. Increasingly this is the case not only for decision makers in private-sector organizations, but also for those within the public sector. Financial decisions and financial planning are central to the success of any business organization. Any operating plan for business must have alongside it a financial plan which allows implementation of the proposed operational details.

The aim of this project is to clarify the most important variables, which are called the Sensitive Points in the Investment Projects. From a group of ten variables, the student considered the most important ones: Sale Price – Value of Investment – Life of Investment.

PAPER

INTRODUCTION

When we have different alternatives, it is important to justify which one is a choice in spite of the others. More specifically, the significance of the investment decision is connected with a certain number of factors, such as:

- capital investment typically for a large amount of the funds of the different organizations;
- capital investments will normally have an important impact on the cash-flows of the organization in the future;
- the return from most investments are not known with certainty at the time the investment is undertaken. Thus, there is an element of risk and uncertainty associated with investment decisions;
- once an investment decision is taken it is often not possible to reverse that decision, or at least, it is very costly to do so;
- the investment decision can have a direct impact on the ability of the organization to meet its goals.

The Investment Project ought to contemplate the building of a Business Plan with several kinds of resources in order to enable the achievement of an idea that we want to implement. Several problems will occur, which makes it important to determine the weakest points of the investment and how to proceed so as to diminish and control the risk.

CHAPTER I – Revision of the Literature

According to Leonilde Megre (2013: 13) *an investment process has the following characteristics:*

- 1- Input material or economic change (land, work, capital) into output (goods or services), where in the first is called expenses and the second is called benefits;*
- 2- Time change: today's resources into tomorrow's resources;*
- 3- Heterogeneity of the resources themselves and concerning the produced goods.*

As we are joining two words, it is important to explain the meaning of each of them:

Project: systematized set of information as the basis for an investment decision.

Investment: Any act which involves the sacrifice of an immediate and certain level of consumption in exchange for the expectation of an increase in future consumption.

With the previous definitions we can take into account two fundamental aspects:

knowing how to handle a set of treated information;

recognizing the objective of the investment, where in I have clients who will allow for the generation of added value to recover the investment.

We stand before the construction of several scenarios which become a specific process that involves the following steps:

- Goal defining;
- Selection of the method to combine the resources available in order to achieve the different goals;
- Estimate of costs and incomes associated to such a choice;
- Selection of the source of the different resources;
- Legal and administrative settings of the project.

These steps are understood in terms of a study so as to include the qualitative and quantitative interventions, and thus we have:

Market and location study;

Technical and size studies;

Legal, social, environmental and other setting studies;

Financial and economic profit studies.

A formal investment appraisal process is useful in ensuring that relevant and appropriate information is gathered relating to all alternatives. It enables decisions to be taken with clear consideration being given to the objectives of the organization and the desires of the owners. The investment appraisal process can, therefore, be seen as an important means for helping to align the interests of shareholders and their appointed representatives in the company.

The expected profit is the estimate capacity, beforehand, of an investment in order to assure not only the complete return (reintegration) of the invested capital on the exploration, but also to create an additional financial profit that is enough to cover the capital interest (its own and of others), taking into account the inherent risk, in order to satisfy a market need based on the 4 Ms:

- Magic: the investor must understand in what way the dream of the entrepreneur corresponds to a solution for a real opportunity;
- Management: the team that will manage the business must have the necessary skills to fight for the success and the idea;
- Market: the plan is according to the market that enables the investment consolidation;
- Money: the financial strategy is based on real premises that will allow the return of the invested capital in an advantageous and acceptable period of time.

CHAPTER II - Methodology and Developed Work

Most of the people think of a Business plan only they start a business or when they apply to a financing. However, they too are essential to run their business, whether it needs, or not, some kind of loan or financing, as businesses need plans that will optimize their growth and development, according to their priorities.

The variables to bear in mind in an investment decision may be gathered in several groups:

Initial investment;

Value of investment need throughout the several years of life of the project;

Cash flows that reflect the moment of surplus generation;

Update rate that contemplates the time effect of the money value, according to the project risk;

Sales Unit Price;

Market Size;

Life of Investment;;

Influence of the External Environment, namely Locally and Regionally;

Influence of the Internal Environment;

Establishment from the Investors of a Minimal Recovery Rate of the Invested Capital.

For purposes of profit estimate, the students worked with the Indexes the Net Present Value: NPV; and the Internal Rate Return: IRR, and their conclusions were always based on the integration of the values determined by both methods.

The Business Plan used by the different work groups (4 to 5 students) falls on a common indicative structure that was dealt with according to a strategy defined by each group.

The different chapters of the Business Plan were introduced in class in different moments in order to be validated with the contribution of all the groups as well as of the teacher, so that the promoters could control the Projects of Investment in terms of operation, profitability and financing.

The overall analysis included a Sustainability Analysis (based on the simulation of different possible situations with different variables of the project and the determining

of the impact of such simulations on profitability), Update Rate Variations and the Forecast of Alternative Funding.

CONCLUSION

The most sensitive variables, in terms of producing a bigger impact, that will produce a bigger change on the profitability of the Investment Project are:

- Sales Unit Price: which price the market can accept in a perspective of knowing till when and how much I will recover of the investment made according to the market work;
- Value of Investment: the value invested corresponds to the value requires for the achievement of the goals determined, with a necessary consistent scale of operation:
- Life of Investment: the advantageous Life corresponds to the acceptance of the product or service by the market, that is, inexistence of discontinuity between the advantageous life of a product and the advantageous life of the project of investment ready for the conception of that product.

Assessment is important not only for being a way to control the accuracy and fairness of the studies set forth, but also to validate the decisions taken according to the investments politics of the company.

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